Research on international business: the new realities

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Research on International Business: The New Realities

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Abstract

This year (2021) marks the thirtieth year of the establishment of the *International Business Review*. This anniversary provides an appropriate occasion not only to reflect on past developments in the global economy and International Business (IB) research, but also to offer our thoughts on the new realities that we believe IB scholars should address in the coming years. In this paper, we highlight some of the major changes in the global business environment over the past 30 years. In doing so, we draw attention to four new realities that we believe merit increased attention in the IB literature: the growth of populism and economic nationalism, sustainable development and climate change, new digital technologies, and changing power relationships. These realities are not completely new and IB scholars have already begun to explore their implications, but we would argue that both the scope and the depth of these implications are growing and evolving. We are thus calling for new empirical insights, new theoretical lenses, and new perspectives to shed light on these issues that are increasingly having profound impacts on society, on firm strategies, and on cross-border management.

Keywords: nationalism, populism, sustainable development goals, climate change, digital technologies, power relationships, Covid-19
Highlights

- The international business landscape has changed significantly since the 1990s.
- We highlight four sets of new realities for further research attention.
- Covid-19 leads to rising nationalism and slows down energy transition.
- Digital technologies have created some powerful firms and new business models.
- Large MNEs continue to enjoy enormous power and influence global value chains.
1. Introduction

This year (2021) marks the thirtieth year of the establishment of the International Business Review (IBR), and this anniversary provides an appropriate occasion not only to reflect on past developments in the global economy and International Business (IB) research but also to offer our thoughts on the important issues that we believe IB scholars should address in the coming years. Back in 1991, few people would have recognized the term “emerging economies”, the United States was clearly the global hegemon, Japan was still the development success story for other countries to emulate and its firms were role models for innovation and enlightened employment practices, the Soviet Union was falling apart, many countries in Eastern Europe (and elsewhere) were embarking on the process of transition to market economies, and China was only slowly making its presence felt in the global economy. The World Trade Organization (WTO) was about to be established following the successful (1995) conclusion of the Uruguay Round of GATT negotiations, and further multilateral trade and investment liberalization seemed inevitable. The European Union (EU) was formally established in November 1993 and provided a model for regional integration initiatives around the world. Globalization seemed to be an unstoppable force (McCann, 2018). The advanced economies were hosts to the headquarters of most of the world’s major multinational enterprises (MNEs) and were both the sources of, and the destinations for, most of the global flows on outward and inward foreign direct investment (FDI). Inward FDI was generally perceived to be a “good thing” for most host countries, bringing benefits in terms of output, employment and technology transfer, with countries competing to secure the most attractive

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1 See Buckley and Casson (2021) for a comprehensive history of IBR and an analysis of the papers published.
2 The term “emerging markets” was originally coined in 1981 by Antoine van Agtmael, an economist working for the International Finance Corporation (IFC) division of the World Bank (The Economist, 2017). Yet it was not until the turn of the millennium that papers referring to emerging economies/markets began to appear regularly in academic journals such as IBR (see Rialp et al., 2019, Table 11; Ferreira et al, 2020; and Cavusgil, 2021, Figure 3).
3 There were some dissenting voices: see the debate between Robert Reich (1990) and Laura Tyson (1991).
projects. Small and medium-sized enterprises (SMEs) were barely considered in the context of international business scholarship. New information and communication technologies (ICT) were reducing the transaction costs associated with international business, and facilitating greater cross-border trade and investment in most goods and services (Buckley & Strange, 2015). It was fashionable to speak of the “death of distance” (Cairncross, 1997), with influential scholars such as Ken-ichi Ohmae affirming (1990, p. 94) that “Country of origin does not matter. Location of headquarters does not matter. The products for which you are responsible and the company you serve have become denationalized.”

Fast forward to 2021, and the contemporary situation is rather different. The United States is no longer the undisputed hegemon, and China has metamorphosed from an offshoring location for labour-intensive manufactures to a technological and political heavyweight with global ambitions. Multilateral trade liberalization through the WTO has stalled with the collapse of the Doha Round of negotiations, and the antipathy of the current US administration. Many regional integration initiatives are also being re-evaluated with, importantly, the United States-Mexico-Canada Trade Agreement (USMCA) replacing NAFTA and the United Kingdom leaving the European Union. Populism and economic nationalism are resurgent, and further globalization no longer seems inevitable: indeed many commentators now speak of slowbalization and/or deglobalization and these trends have been exacerbated by the Covid-19 pandemic. Distance very much matters, and different dimensions of distance matter in different contexts (Ghemawat, 2001; Berry et al., 2010; Shaheer & Li, 2020). Inward FDI is no longer perceived as necessarily a “good thing”, and many host countries have introduced stricter screening on national security grounds of investments from selected source countries (notably China), in selected (notably technology-intensive) industries, and from certain types of investors (notably state-owned or controlled entities). Sustainable development and climate change are key concerns, with the pursuit of present-day development goals needing to be
weighed against the preservation of the natural resources and ecosystems upon which future society will depend. The 2015 agreement by the United Nations on the Sustainable Development Goals (SDGs) poses both challenges and opportunities for MNEs. New corporate players have arrived on the scene, notably firms reliant on digital platforms (e.g., Apple, Amazon, Google, Alphabet, Facebook, Alibaba) and MNEs from the emerging economies (e.g., Huawei, Alibaba, Lenovo, Haier, Tata). SMEs have become a vital part of the IB landscape, and the study of international entrepreneurship has developed apace together with a deeper consideration of SME-MNE interaction and cooperation. Meanwhile new digital technologies (e.g., the internet of things; big data and analytics; robotic systems; additive manufacturing) are already having major impacts on the practice of international business (Strange & Zucchella, 2017). These developments have been accompanied by the growth in the importance of global value chains (GVCs) as MNEs have not only offshored many activities but also externalized the undertaking of these activities to independent providers. The wider geographic dispersion of these activities coupled with the organizational fragmentation of the GVCs has given rise to changing power relationships between MNEs and their GVC partners, and between MNEs and the governments of the countries in which they operate.

This brief and selective overview testifies to the ever-changing context for IB practice and scholarship over the past thirty years. IB scholars have long debated the boundaries of the discipline, and have often been self-critical about the topics studied, the methods used, and the relevance of much published research for the practical challenges facing managers. Early influential contributions include Buckley (2002), Peng (2004), Shenkar (2004), Griffith et al. (2008) and Cheng et al. (2009). More recently, Doh (2015) had made an impassioned plea for more phenomenon-based research on contemporary issues in global business. His potential

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4 See Zucchella (2021) and Prashantham and Birkinshaw (2020).
5 See Delios (2016) and Casson (2018) for example. The IB community is not alone in this self-reflection, and similar debates are ongoing in many management disciplines including human resource management (e.g., Kaufman, 2015) and employment relations (e.g., Budd, 2020).
topics include *inter alia* the impacts on (broadly defined) international business of changing global demographics; the distribution of scarce natural resources; technological developments; natural disasters; emergent and complex conflictual relationships between states; the use of non-market (social and political) strategies by MNEs to gain legitimacy and competitive advantage; and enhanced concerns about social responsibility and environmental sustainability.

Buckley et al. (2017) noted that IB research had already provided insights into important phenomena such as the rise and strategies of MNEs from the emerging economies; the causes and consequences of offshoring and the disaggregation of GVCs; and how MNEs respond to pressures for sustainability and social responsibility. Furthermore, they suggested that IB scholars should address grand challenges such as the impacts of anti-globalization, climate change, poverty, migration, terrorism and, most presciently, infectious diseases. Child (2018) posed the question of whether IB research should put more emphasis on power relationships, and how power is exercised. He stressed that MNEs were political actors, and argued that an analysis of power was necessary to understand fully the dynamics of the relationships between MNEs and the government (and other) actors with whom they have to interact in their search for legitimacy. Last but not least, Geppert and Bozkurt (2021) have recently collated a collection of papers outlining a possible future research agenda for international business and management. The chapters pick up on many of the themes highlighted above and address a wide range of topics including *inter alia* the use of behavioural theory to understand decision-making in MNEs; MNEs as political actors; emerging economy MNEs (EMNEs) and their geopolitical embeddedness; and the drivers of the organizational fragmentation of GVCs.

This paper picks up on the four *new realities* of the contemporary business landscape highlighted above, namely the growth of populism and economic nationalism; sustainable development and climate change; new digital technologies; and the changing power
relationships between firms, and between firms and governments. We briefly discuss each below, emphasising the implications of each for society as a whole, for firm strategies, and for cross-border management. We draw these implications together in the final section.

2. The growth of populism and economic nationalism

In the 21st century, populism has gained increasing traction as a political discourse following the UK Referendum in 2016, which has led to the Brexit, and Donald Trump’s election to the US Presidency in 2016, which saw the aggressive promotion of his “America First” policy subsequently. Nationalism is often considered part of populism although several authors believe that these are two different concepts (e.g., Stavrakakis, 2017). Nationalism is, however, related to the sovereignty of “the nation”, while populism is related to the sovereignty of people. Also, while populism is defined on a vertical dimension, nationalism is defined on a horizontal dimension and depicts the nation, or a community and the outsiders, as illustrated by Fig. 1. These two concepts are, nonetheless, intertwined. Nationalism is related to identity and loyalty, while populism explains social and economic structures (Gellner, 1983).

*Insert Fig. 1 here*

In the IB field, these two concepts are even more intertwined and sometimes used as synonyms or two dimensions of the same concept. In part due to the growing influence of populism and nationalism in political thinking and policy actions, economists and trade experts are now questioning the benefits of globalization. Populist governments such as Trump, definitely combined populism with nationalism, when it imposed restrictions on trade and immigration, claiming that outsiders are benefitting while American workers are being hurt. As a result, more and more countries and even some economists believe that large scale inflow
of manufactured goods in the West from low wage emerging markets, especially China, has changed the dynamics of international trade and globalization in a couple of decades (Krugman, 2019; Autor, 2020). However, others believe that looking just at trade of manufactured goods does not tell the whole story. If we include trade in services and other intangibles such as franchising and patents fees, the trade imbalance is not as large as presented in international statistics (Fu & Ghauri, 2020). Indeed, economic integration has been a key feature of globalization in the past few decades, with national economies increasingly intertwined with each other through embedded global value chains.

It seems that economists failed to see that globalization could lead to hyper-globalization leading to economic upheaval in some countries such as the United States. As Rodrik (2011) argued, a nation cannot simultaneously pursue democracy, national self-determination, and economic globalization. This hyper-globalization led to the adoption, by Trump’s government, of rather crude protectionist and mercantilist strategies that ignited trade wars, not only with China but also with Europe and other allies such as Canada (Hirsh, 2019). In addition, the nature of Trump’s crude methods discouraged all reasonable debate about trade, inequalities and workers’ conditions in the West. One result of that era is that even the famous advocates of globalization are now in doubt, mainly due to the rise of China (Autor, 2018; Krugman, 1990, 1996, 2019).

It is confirmed that globalization, rising international trade and the rise of China have lowered consumer prices and reduced the price index of manufactured goods in the West (Amiti et al., 2017). The offshoring to China and other countries has increased productivity of home market workers and has extended the range of products and services that firms can offer. Supporters of globalization were of the view that the world had become so interdependent that no country can manage to efficiently produce a product at home and thus needed to trade with other countries in components, services and products (Buckley & Ghauri, 2004).
It also needs to be confirmed that the increase in Chinese low cost manufactured exports are the main reason behind the exceptional economic growth in China that has brought more than 650 million citizens out of poverty within a period of three decades (*The Economist*, 2013; Autor, 2018). Considering the above and that the Trump era is behind us, it is about time to have serious discussion and debate to address trade, inequalities, and most of all, the impact of populism and nationalism, on international business. More research is thus needed on these two concepts and their impact on international business, trade and investments.

Two distinct developments are worth bearing in mind for future research and debate. One is the shift of gravity from the Western economies to the emerging economies. As Fig. 2 shows, in 2015, the GDP of G7 countries was US$34.1 trillion, whereas that of E7 was US$18.8 trillion. It is estimated that in 2050, the GDP of G7 will be US$69.3 trillion, whereas that of E7 will be US$138.2 trillion (PwC, 2016). In other words, emerging markets are not only the producers/suppliers but also the consumers, where about 80 percent of the world population resides. Therefore, Western countries will no longer be the centre of the economic activities. This calls for not only strategic recalibration of Western MNEs, but also the departure from a Western-centric approach towards a developing country-oriented perspective to examining and conceptualizing emerging phenomena in IB (see Cavusgil, 2021, for a review of emerging market research, past and future perspective).

*Insert Fig. 2 here*

Another distinct development is the forces of relocation of FDI and production activities from one region to another or within the region as MNEs are making conscientious efforts to de-risk themselves from being over-dependent on particular countries/regions. For example, initial factory closures during the late January through March 2020 in China to
prevent Covid-19 from spreading have resulted in a global shortage of raw materials, parts and equipment. This has a domino effect on major economies, such as the US, Japan, and Korea, as well as some European countries. In the automotive industry, some companies temporarily suspended production outside China due to the shortage of parts from China. In China, following the closure period when factories resumed production, many export-oriented companies found that they had to lay off workers two weeks after reopening their businesses, due to the cancellation of overseas orders (Cooke, 2020). Some governments have also used the opportunities to encourage their MNEs to relocate (part of) their businesses back to the home countries or relocate their plants from China to other developing Asian countries to de-risk. According to Goldthau and Hughes (2020, p. 28), government “incentives to bring home or ‘reshore’ manufacturing as part of economic stimulus packages … will backfire”, because networks of “cross-border trade and investment keep costs down and encourage learning and innovation.”

Global or regional economic disintegration may alter the powerbase of regions, firms, and the production and value chain systems. The new reality may create multi-regional hubs that would reshape the competitive environment for MNEs and their networks. New global champion firms may emerge with new competitive dynamics across regions. Over time, we may see trends of divergence and glocalization, more uncertainty for MNEs and more challenges for international development efforts when populism and nationalism run strong. These developments generate considerable new opportunities for IB research. For example, will the relocation of production activities back to the home countries on the one hand, and the continuing pressure to keep cost down on the other, lead to new patterns of migration, that would privilege some workers over others and “unfree labour in contemporary economies” (Strauss, 2013, p. 180; see also Rodrik, 2018)? How far will investors and MNEs support populism and nationalism before they prioritize their own interests?
In researching these issues, it is worth bearing in mind that populism and nationalism have been mobilized in various historical points in different nations, albeit each new wave may be characterized with its own cause, agenda, phenomenon and episode. Here, Buckley’s (2020) argument of the increasing role of history in IB, as an underpinning for international business theory, as a source of research practices, and as a source of research methods, will be highly relevant in extending research and knowledge frontier on populism and nationalism in the IB context.

3. Sustainable development and climate change

The continuing economic growth in the past decades has led to resource depletion, environmental degradation, and widening social and economic inequality within and across nations. Sustainable development has become a critical issue that is confronting many societies, regions and communities. In 2015, the UN launched 17 Sustainable Development Goals to be achieved/revisited by 2030. According to the UN, SDGs are the blueprint for achieving a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. It is apt to situate the discussion of the role of MNEs in the context of SDGs, an area which has yet to attract more research attention from IB (Ghauri, Fu, & Vaatanen, 2018).

MNEs are seen as the cause, through the dark side of their activities such as environmental degradation, corruption, and exploitation (e.g., Batra, 2007; Michailova, Stringer, & Mezias, 2020; Villo, Halme, & Ritvala, 2020), as well as the solution of problems that undermine sustainable development. As Kolk and Van Tulder (2010, p. 120) contended, the “absence of widespread international regulation on social and environmental issues can be considered as both a problem and an opportunity for MNEs.” However, research interest in sustainable development in IB, including the important role of corporate social responsibility
(CSR) in achieving this, was limited until the early 2010s (see also Kolk, 2016; Pisani, Kourula, Kolk, & Meijer, 2017 for reviews). Similarly, industries that have the most direct and significant impact on sustainable development, such as the natural resources industry and the energy, have not featured prominently in IB research (e.g., Shapiro, Hobdari, & Oh, 2018). We argue that MNEs can play a significant role in the sustainable development agenda, which goes well beyond the CSR discourse, and these developments (phenomena) need to be captured by IB research with nuances. Indeed, IB research on sustainability issues is beginning to gather momentum, as evidenced in the establishment of the Sustainability Special Interest Group of Academy of International Business and special issues in IB journals.

In addition to examining the role of MNEs in sustainability, we also need to consider how policy changes and other stakeholder actions, as efforts toward sustainable development, may impact MNEs and the industries they are associated with. In the remainder of this section, we focus on climate change, one of the SDGs, to illustrate the challenges and opportunities that are unfolding for MNEs. A core argument underpinning our discussion below is that the sustainability development agenda is not just a social and economic agenda, but also a political agenda. The assessment of the role of MNEs, therefore, needs to be situated in the broader institutional and cultural context informed by varieties of development models, including government regulation and institutional investors’ green activism.

For example, different typologies of MNEs (global, transnational and multi-domestic) may face different levels and sources of pressure to take action related to climate change, such as on greenhouse gas (GHG) reporting practices. Comyns (2018) posited that global MNEs may have better quality GHG emissions reporting compared to transnational and multi-domestic MNEs because the former are likely to have stronger international institutional pressure than the latter. Will this prediction hold true for MNEs of different countries of origin and industries? Patnaik’s (2020, p. 976) analysis of a panel dataset of oil firms (2008–2012) in
the context of the European Union (EU) emissions trading scheme shows that “among those firms that received positive net benefits from the new climate policy, domestic firms were able to maximize these benefits” better than MNEs through their ex-post strategies even though there was no difference in their ex-ante strategy. However, for firms that faced net costs due to the policy, MNEs “were able to minimize these costs better than domestic firms, ex-post” (Patnaik, 2020, p. 976). As the European Commission (EC) has a strong determination to fight climate change (c.f. https://ec.europa.eu/clima/policies/eu-climate-action_en), will EU-based MNEs become more strategic and resourceful in their climate change actions and ultimately become more competitive than other MNEs receiving less pressure and incentives to do so?

In addition to external regulatory pressure and incentive, senior leadership within the MNE have been found to be pivotal in the climate actions. Hsueh’s (2019, p. 1302) study examined factors contributing to “opening up the firm” showed that “the main drivers of participation in voluntary carbon disclosure by the Global 500 firms is the existence of senior managers and executive-level officers and the adoption of ESG [ environmental, social and governance] principles by global businesses.” How do internal factors, such as the nature of the control structure of the MNEs and senior leadership’s characteristics and attitudes, influence MNEs’ climate change strategy and practice? With a tightening regulatory environment, to what extent and in what ways are MNEs’ positive response to climate change still a political strategy as identified by Kolk and Pinkse (2007) over a decade ago?

According to the BP Statistical Review of World Energy 2020 (BP, 2020), although renewable energy made up the largest share (41%) of the increase in energy consumption, fossil fuels still accounted for 84 percent of the world’s primary energy consumption in 2019. Reversing the trend of climate change necessitates energy transition. Lower carbon development is an emerging trend that is gathering speed, not least because of the strong push by the UN and a growing number of national governments. Large investors are increasingly
moving away from the traditional fossil fuel sector and embracing the concept of ESG investing, also known as “sustainable investing”, that seeks positive returns as well as long-term positive impact on society, environment and business performance (KPMG, 2020). Institutional investors, some of which are international companies themselves, are also mobilizing investor activism to drive the energy transition agenda. They are beginning to form a powerful global force in shaping the energy market through strategic investment decisions that may have profound impacts on transforming the energy market and consumer behaviour (Eccles & Klimenko, 2019). This investment pattern and behaviour will also have significant implications for MNEs regarding their products and services, market, consumer base and long-term future.

In the meantime, major policy initiatives (e.g., net zero 2030) is likely to have far reaching impact on other industries that rely heavily on energy consumption, such as the automotive industry that is dominated by large MNEs. For example, in November 2020, the German government announced a €3 billion subsidy package to facilitate the transition of its automotive industry. However, critics claimed that such a policy would mainly benefit China because of its dominance in the production and supply of the core component for the electric vehicles—batteries (Seiwert, 2020).

Climate change and energy transition creates considerable scope for broadening IB research into comparative studies of political systems, economic institutions and national models. As Wood (2020) argued, climate change amplifies the role of the state and, in some cases, may lead to statism in various forms. This has implications for MNE strategy, business model and operations across different national systems. Lei, Voss, Clegg and Wu’s (2017, p. 98) study of the decision process of Chinese subsidiaries of foreign MNEs in developing and deploying a climate change strategy found that these subsidiaries developed their own understanding of climate change and an adequate response rather than following the
headquarters’ directives. Future research can extend this line of enquiry by exploring the extent to which host country institutional pressure, including the isomorphic effects of other foreign subsidiaries, may drive an MNE subsidiary’s climate change strategy, and how this local responsiveness may create tension for or barriers to the MNE in developing a coherent global climate change strategy as part of its sustainable development strategy.

It is clear that climate change and energy transition agenda has created strong political forces that shape the financial market and the regulatory environment within which firms operate. This has uneven regional and global impacts and implications for MNEs, since the energy industry and energy-dependent industries are dominated by large MNEs (Boon, 2019). Many questions are relevant to IB research. For example, how is the ideological position of inter-government bodies (e.g., EU) and national governments on renewable energy, as manifested in their policy actions? How does the dynamic political-economic-technological environment affect MNEs in the high energy-dependent sectors and beyond? How do MNEs play a strategic role, often with the backing of the governments, in leading the energy transition and in developing the renewable energy market globally? How do the combined political and business forces create hubs of energy production and modes of consumption at a regional level? What are the driving forces that are (re)shaping GVCs and re-structuring regional power and market rules in the energy sector and related industries, with broader implications for the society?

The impact of Covid-19 adds further dynamics to the climate change and sustainability agenda. On the one hand, post-Covid-19 economic clash “threatens the international trade networks that make clean energy cheap – abandoning them puts the climate at risk” (Goldthau & Hughes, 2020). On the other hand, governments may seize this opportunity to reboot the economy as a green economy. Hepburn, O’Callaghan, Stern, Stiglitz, and Zenghelis (2020) posed an important question: will Covid-19 accelerate or halt the low carbon future agenda?
In short, MNEs play an indispensable role in sustainable development and achieving the SDGs. The contribution of these firms in terms of growth of productivity, industrial development, improved managerial and technical skills through FDI is now well documented (Vaatanen & Teplov, 2018), especially when they collaborate with local NGOs, as was found the case in the fast fashion industry (Liu, Napier, Runfola, & Cavusgil, 2020). In such a collation, a beneficial equilibrium can be achieved. While MNEs are striving for profit maximization, NGOs aim at addressing environmental and social problems and both parties learn and compromise. This ultimately provides sustainable benefits for all stakeholders (Hadjikhani et al., 2012; Stiglitz, 2012). We encourage future research to engage with the role of MNEs in sustainable development more fully, given the limited research attention thus far (Kolk, Kourula, & Pisani, 2017; Van Zanten & Van Tulder, 2018). Admittedly, “the role of MNEs in sustainable development” is a vast topic. It compels IB research to focus on not only the global warfare (e.g., trade war, tech war), but also the global welfare (e.g., improved wealth of poor countries through IB), in other words, the dark side (e.g., corruption, modern slavery) (Michailova, Stringer, & Mezias, 2020), as well as the bright side (e.g., environmental protection, poverty reduction) (Forcadell & Aracil, 2019). “The role of MNEs and sustainable development” is also an inclusive topic that provides rich opportunities for IB researchers to be engaged in from a constellation of intellectual perspectives, from the lenses of diverse stakeholders, including the inter-government organizations, NGOs and civil society, and at various levels of analysis through the temporal and spatial dimensions. It also connects with other “new realities” we highlight in this paper. For example, how may MNEs’ international development efforts be undermined by economic nationalism? How can businesses and government work together to root out sources of inequality stemming from power imbalance amongst stakeholders?
4. New digital technologies

In recent years, the availability of big data from Internet of Things (IoT) combined with digital technology has revolutionized the way we do business and created enormous opportunities for international business. Artificial Intelligence (AI) in combination with big data can predict human behaviour. For example, it can pick up 10 of our likes from Facebook and can predict our behaviour more accurately than our friends or colleagues. It can predict whether we are single or in a relationship with 67 percent accuracy, whether we are Christian or Muslim with 82 percent accuracy, whether we are gay or not with 88 percent accuracy and whether we use drugs or not with 65 percent accuracy (Kosinski, Stillwell, & Graepel, 2013). When it is used effectively it can lead to monopolistic competitive advantages for businesses (Boobier, 2018). It can also lead to useful innovation and improve our lives. Most of the successful companies of recent years, from Amazon to Uber, are based on digital frameworks and big data.

This new reality is also creating new challenges as regard to ethical, social, economic and legal aspects of doing business. The point is that the predictive power of AI and IoT is greater than human beings and are becoming out of human control. It is, however, confirmed that a combination of brain power, AI and big data can create incredibly successful businesses and systems. This is particularly useful in behavioural predictions and decision making. Moreover, such a system get smarter the more it is used (Walker, 2018).

It was proposed by Alan Turing already in 1950s that machines can do all that humans can do (Margetts & Dorobantu, 2019), and that AI can mimic the human psychology including empathy. It is thus no surprise that a Japanese company, Softbank, is now marketing AI robots as human companions. These robots are able to perceive emotions of their companion and adapt its own behaviour to that of the companion. The latest versions are definitely smarter than human in creativity, empathy and compassion. Many scientists such as Steven Hawkins,
and entrepreneurs such as Elon Musk, believe the AI will take over humans as superior species and humans as we know them, are in danger. Although, others believe that AI assistance in the job will help humans to improve work/life balance, freeing them to do more meaningful work (Joy, 2019). There is reason to be worried, as there is transparent AI that we can trust and know what it can and cannot do and opaque AI, a network of genetic algorithms that can analyse huge data sources in minutes, if not seconds, and make decisions. The amount of data used in this process is beyond human capacity to grasp. It is this opaque AI that is more and more driving our businesses, the majority of investments made in Dow Jones are now done by AI (The Economist, 2019).

Global marketing managers in big MNEs are using AI to select locations for their billboards, TV shows and other media channels where they should be advertising in different countries (Walker, 2018). A marketing manager, however, does not understand how the AI makes its decisions. New regulations are coming around, such as the General Data Protection Regulation (GDPR) by the EU, that demand transparency in decision making especially concerning customers, for example decision concerning customer segmentation. These regulations are designed to protect individuals as they do not have control over their own data and there is no way they can take a collective action. GDPR aims to protect the privacy of the individual and has helped to establish individuals’ rights over their own data. Digitalization however, goes beyond individual privacy.

The digital revolution has spread rapidly, it is now creating digital monopolies where technology-based companies have built their business models on digital platforms that are supported by big data. Companies such as Alphabet (google) and Facebook with a combined value of $1.9 trillion, are good examples of these monopolies (The Economist, 2020). These firms depend upon our data that they collect through their own and other sources, that they sell to marketers and strategists of big companies. These types of firms are now so big and have
superior decision making power supported by AI that their competitors cannot beat them. For new starters, capital is not the problem anymore, it is the access to data that creates competitive advantage (Mayer-Schonberger, 2013).

New realities, such as Covid-19, have in fact accelerated the adoption of digital tools and big data. As consumers are moving towards digital channels, businesses are increasingly interacting with customers through digital channels. According to a recent survey by McKinsey and company, managers say that now 80 percent of their interaction with their customers is through digital channels. They report similar trend on their internal operations such as supply chain, production and R&D (McKinsey & Co., 2020). The survey also revealed trends such as changing customer needs, more online purchases, moving assets to the cloud and increased use of AI for business decisions. These trends are going to last beyond Covid-19 and are here to stay.

Corporate strategies supported by digitalization and AI are however, not a post-Covid phenomena, the top 10 richest individuals globally from Bill Gates to Bezos from Amazon made their fortunes from digital framework based companies. Warren Buffet is the only person in that group who has not made his fortune from digitalization. One of the characteristics of digitalization is that it has made distance and geography less important. Covid-19 has made these people even richer, for example, Bezos saw his fortune increase by $36 billion between January and September 2020 (Westbrook, 2020). Digitalization provides lucrative profits with minimal cost for expansion. The algorithm and data once written can be multiplied and used and reused and is never consumed. The more it is used the more value it creates for the brand and the bigger the firm gets the higher the benefits it can reap form digitalization. Although these companies are started by individuals, who keep the majority share, they seem to gain a life of their own and live for a long time, as is evident from Microsoft, Apple, Amazon and even Alibaba. It seems we do not mind or are unable to stop/control these monopolies. This
new reality highlights the need to investigate the impact of AI and usage of big data on businesses, economies and on socio-political systems. This new reality is changing our cultural and economic systems in an opaque manner and can/should be diverted towards the pursuit of sustainable socio-economic goals (Kuo & Smith, 2018; Metcalf et al., 2019; Di Vaio et al., 2020). In short, digital globalization not only offers new business opportunities with profound impact on lives and societies, but also new avenues for IB research and theorization, as Luo’s (2021) insightful analysis illustrates.

5. Changing power relationships

Power and power relationships between firms are ubiquitous in international business. Large MNEs may not only enjoy significant market power, but also the power to choose the (international) locations of their GVC activities and/or to engage in profit-shifting practices to minimize their tax liabilities. MNEs are political entities who both react to, and seek to influence, the governments and other societal actors of countries in which they do business. Power asymmetries between MNEs and partner firms are prevalent in organizationally-fragmented GVCs, and between partners in joint ventures and strategic alliances. We contend that these asymmetric power relationships are an increasingly important feature of the contemporary global economy, and merit greater attention from IB scholars.

The fact that MNEs enjoy significant market power, and are motivated to enhance their market power, was first explicitly acknowledged in the IB literature by Stephen Hymer (1960/1976). Hymer argued that many industries were not perfectly competitive and that

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6 The concept of power is central to resource dependency theory which envisages that organizations that own or control valuable, scarce resources enjoy power over organizations that seek those resources, to the extent that the dependency is not mutual (Pfeffer & Salancik, 2003). It has been described (Ireland & Webb, 2007, 483-485) as an “elusive concept” and a “multi-dimensional construct” (see also Dallas et al., 2019; and De Marchi et al., 2020).

7 It is interesting to note that much more attention has been devoted to the power relationships within MNEs, between subsidiaries and headquarters (e.g., Mudambi & Navarra, 2004; Bouquet & Birkinshaw, 2008; Geppert et al., 2016; Kostova et al., 2016), between shareholders and managers (e.g., Filatotchev & Wright, 2011; Aguilera et al., 2019), and between management and the workforce (Balcet & Ietto-Gillies, 2020). We do not review the key issues here because of space constraints.
structural market imperfections led to some firms enjoying varying degrees of market power. He further maintained that such firms would seek to enhance their market power through FDI and acquisition of, or collusion with, foreign competitors. Hymer clearly believed that firms became MNEs to maximize the returns on their competitive advantages, but was ambivalent about the wider welfare implications. He commented (Hymer, 1970, p. 443) that “direct foreign investment thus has a dual nature. It is an instrument which allows business firms to transfer capital, technology, and organizational skill from one country to another. It is also an instrument for restraining competition between firms of different nations. [It is important to note] that the general presumption of international trade economists in favor of free trade and free factor movements, on the grounds of allocative efficiency, does not apply to direct foreign investment because of the anticompetitive effect inherently associated with it.”

Subsequent theorizing has tended to focus more on the ability of MNEs to overcome natural market imperfections and to organize (internalize) cross-border transactions efficiently. From this perspective, the welfare implications of MNEs are generally positive for both home and host countries as they facilitate an international division of labour, promote competition in global markets, minimize transaction costs, and enable the cross-border transfer of tacit knowledge (Clougherty & Skousen, 2019).

However, the increasing importance of intangible assets (e.g. product design, process engineering, R&D, technological know-how, patents, brands, software and databases) in value creation in many MNEs – as manifested most clearly in the high-tech MNE giants – has created new sources of market power (Haskel & Westlake 2018; Pitelis & Teece, 2018; Durand & Milberg, 2020) and has focused attention again on the potential negative welfare effects of MNEs. The scale economies and network externalities associated these intangible assets are international in scope, and hence are more problematic for governments to regulate. Furthermore, the taxation of MNE profits has long been a contentious issue given the various
(legal) techniques available to firms (e.g., transfer pricing, internal royalty payments on management services and intellectual property, internal debt financing, registered ownership of assets and intellectual property, shell companies, tax reliefs) to minimize their tax liabilities. Such “base erosion and profit-shifting” practices (Dharmapala, 2014; Contractor, 2016; Tørsøv et al, 2018; Cooper & Nguyen, 2020) are feasible in bricks-and-mortar firms, but have become commonplace in MNEs when products are sold via digital platforms and many payments are made for the use of intangible assets.\(^8\)

Increased market power not only allows MNEs to engage in anti-competitive behaviour and profit-shifting practices, it also enhances their bargaining power vis-à-vis governments both in their home countries and in host countries. Indeed Burmester (2021) refers to the MNE as an unprecedented species of geopolitical actor, whose power is derived from its participation both in markets and in international society. Boddewyn (2016) provides a fascinating analysis of the development of MNE-government relations from the end of the Second World War, and proposes a periodization around the themes of confrontation, accommodation, and competition\(^9\). He identifies the first period (1945-1979) as an era of confrontational relations between Western MNEs and host country governments concerned about sovereignty and the protection of their national interests. He suggests that MNEs generally had to bow to the power of sovereign host countries when considering investment overseas. Boddewyn labelled the second period (1980-2000) as an era of more accommodating relations during which, particularly in the 1990s, the vast majority of national policy changes worldwide made the investment climate more welcoming for MNEs, and investment promotion agencies replaced national screening agencies in many countries. As noted in our Introduction, this is the period that witnessed *inter alia* the establishment of the WTO, the rise of the emerging economies,

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\(^8\) See Campbell and Helleloid (2016) for details of UK tax avoidance by Starbucks.

\(^9\) See also Fu et al. (2021).
and the development of the *global factory* (Buckley & Ghauri, 2004; Buckley & Strange, 2015). Boddewyn comments that the balance of power had shifted towards MNEs as their ability to relocate GVC activities around the world meant that nation-states had less scope to impose regulations and performance requirements on MNEs, and were more likely to compete with each other to attract FDI.

Boddewyn has dubbed the third period (from 2000 onwards) the era of competing relations as the global business landscape increasingly accommodated MNEs from emerging as well as more advanced economies, MNEs from democratic as well as more authoritarian countries, overseas investments by state-owned enterprises and state-controlled entities (e.g., sovereign wealth funds) as well as privately-owned firms, and the influence of additional stakeholders (e.g., NGOs). Governments in host countries have become more circumspect about the benefits of inward FDI, and many MNEs now have to overcome not only the familiar liability of foreignness but also a liability of home/origin (Ramachandran & Pant, 2010; Stevens & Shenkar, 2012) and a liability of stateness (Musacchio et al., 2015). Furthermore, Boddewyn (2016, p. 16) comments that “Western MNEs have placed groups of workers located in both developed and developing countries in rivalry with each other for the employment these firms do provide.” Boddewyn concluded his review in 2015, and hence did not reflect on post-2015 events notably the growth of populism and economic nationalism (see above) which have been reflected in the reintroduction of national FDI screening by many host countries and an increased willingness by governments to exercise their power to constrain the activities of MNEs. More generally, this discussion points towards the importance to MNEs of engaging in non-market strategies both to enhance their organizational legitimacy in host countries and to counter the anti-globalization backlash (Doh et al., 2012; Chen et al., 2018; De Villa et al., 2018; Curran & Eckhardt, 2020; Shirodkar et al., 2020).
Most MNEs do not vertically integrate all the activities within their GVCs; they concentrate on their core activities and contract out supplementary activities to independent suppliers and distributors. These contracted-out activities may involve the provision of inputs (e.g., raw materials, intermediate goods and services), support activities (e.g., IT, HRM) and/or post-production activities such as marketing, distribution, and after-sales service. But there are also numerous instances of factoryless goods producers (Bernard & Fort, 2015) who have contracted out the production activities within their GVCs, and who simply provide intangible inputs: well-known examples include Apple and Nike. The coordination of such organizationally-fragmented GVCs may well be effected through arm’s length relationships with the independent contractors, and this is likely to be the case when the intermediate products are relatively standardized, transaction-specific investments are not required, and there are low measuring, monitoring and communication costs. But there will an imperative for greater control and coordination when MNEs procure inputs that need to be customized in terms of quality, design, or delivery schedules. Furthermore, this imperative will be stronger when the MNEs are obliged to take responsibility for the social, labour and environmental impacts of activities within their GVCs (Strange & Humphrey, 2019). In such cases, the MNE typically assumes the role of the lead firm\(^{10}\) to provide the coordination because it possesses the requisite (dynamic) capabilities to orchestrate/integrate the value-creating activities within the GVC (Pitelis & Teece, 2010).

However, value creation is only part of the story and it is also important to consider how the value created within the entire GVC is then distributed among the GVC partners. Here the power asymmetries between the lead firms and their partner firms become pertinent. Some authors maintain that equitable distribution can be achieved through strategies such as

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\(^{10}\) Various synonymous terms are used in the literature, including focal firm, hub firm, flagship firm, orchestrator, joint value orchestrator, network orchestrator, strategic centre, strategic nexus, principal, and meta-integrator.
generating a common chain identity; utilizing boundary spanning ties; and providing procedural and interactive justice (Ireland & Webb, 2007), or through social mechanisms such as the selective choice of partners; inclusion of non-business intermediaries; joint strategizing; generating relational capital; communication of performance expectations and standards; and the adoption of explicit rules for value distribution (Kano, 2018). Other voices are more skeptical and envisage lead firms using their power within the GVCs to capture/appropriate disproportional shares of the value created.\footnote{Here again Stephen Hymer (1972) was an early contributor. See Strange & Newton (2006) for a discussion.} Thus Reimann and Ketchen (2017, p. 5) assert that “it is undisputed that power can allow firms to capture larger shares of value in the supply chain.” Coe and Yeung (2015, pp. 66-67) suggest that lead firms (and other actors) in GVC “draw upon different forms of power in order to take on an advantageous position in [GVCs] that favor their value creation, retention, and capture.” Strange (2021) advances a theory of externalization and links the ability of lead firms to capture the value created in organizationally-fragmented GVCs to their possession of isolating mechanisms such as formal property rights, firm-specific technological capabilities and intangible assets, and multinationality. Durand & Milberg (2020) highlight the polarization between oligopolistic lead firms with markup pricing power and lower-tier GVC partners exposed to intense competition, and how the induced competition among suppliers also dramatically weakens the bargaining power of labour and heightens competition between workers in different countries.

In summary, asymmetric power relationships have always been a feature of international business but appear to be increasing in the contemporary world economy as a corollary of the new realities identified above. We endorse the view of Child (2018) that IB research should put more emphasis on power relationships, how power is exercised by MNEs, and the limits on the exercise of power. In practice, MNEs enjoying power may choose to exert it either to achieve self-interested objectives or for the common good, whilst there are also
likely to be both external (e.g., formal regulations and/or informal institutional norms) and internal (e.g., forbearance) constraints on the exercise of power (Crook & Combs, 2007; Reimann & Ketchen, 2017). However, Mayer & Phillips (2017, p. 146) argue that private regulation of GVCs has not led to significant improvements in social, labour and environmental standards, and that private and public governance are required in combination. They stress the need to consider GVCs as both political and economic phenomena, requiring a recognition of the inseparability of economic and political power.

6. Concluding remarks

In this paper, we have briefly highlighted some of the major changes in the global business environment over the past 30 years. In doing so, we have drawn attention to four new realities that we believe merit increased attention in the IB literature. These realities are not completely new and IB scholars have already begun to explore their implications, but we would argue that both the scope and the depth of these implications are growing and evolving. We are thus calling for new empirical insights, new theoretical lenses, and new perspectives to shed light on these issues that are increasingly having profound impacts on society, on firm strategies, and on cross-border management (see Table 1). The effects of these new realities are also interdependent. For instance, growing populism and economic nationalism will have adverse impacts on the achievement of the sustainable development goals. The widespread deployment of new digital technologies will clearly have significant effects on the power relationships between MNEs and governments, between MNEs and their GVC partners, and within MNEs. The IB community is well-placed to offer valuable insights given the interdisciplinary nature\textsuperscript{12} of the field (Buckley et al., 2017) and its methodological plurality.

\textsuperscript{12} Shenkar (2021) queries whether IB research is as interdisciplinary as it could and should be.
At the time of writing, the global economy is still in the grip of the Covid-19 pandemic though there are encouraging signs that mass vaccination through 2021 may allow the resumption of (international) business activities. But the pandemic is likely to have longer-lasting effects not least by playing into the concerns in many countries about national security, sovereignty, and the unequal distribution of the benefits from globalization (Strange, 2020). Furthermore, governments worldwide will at some stage have to address the increased debt they have accumulated in trying to minimize the short-term economic impacts of the pandemic, and this will almost certainly require increases in (corporate and personal) taxation. This may slow the adoption of policies to address the SDGs or, alternatively, stimulate green recovery plans. In fact, emerging evidence shows that international investment flow to developing and transitional economies declined in 2020 due to Covid-19, and that the decline in SDG-relevant investment was much larger in developing and transition economies than in developed countries (UNCTAD, 2020). At the firm level, there is a realization that MNEs need to be more aware of the disruptive possibilities of future pandemics and to examine the robustness of their GVCs. It has been suggested that GVCs may need to be reconfigured to build in greater resilience, and that this reconfiguration might involve inter alia the reshoring and/or reintegration of key GVC activities, the faster adoption of new digital technologies, and possibly greater emphasis on sustainable practices.
References


*The Economist* (2020), Schumpeter: Free the data serfs, October 24, p. 66.


Table 1
Implications of the new realities for IB research, policy and practice.

<table>
<thead>
<tr>
<th>New realities</th>
<th>Implications for IB research, policy and practice</th>
<th>Cross-border management</th>
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<tr>
<td>The growth of populism and economic nationalism</td>
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<td>- Increased protectionism and discriminatory</td>
<td>- Increased liabilities of foreignness/home for</td>
<td>- Restrictions of cross-border movements of people, especially migrant labour</td>
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<td>government policies</td>
<td>MNEs</td>
<td>- Increased need for MNE policies to secure organizational legitimacy in host countries</td>
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<td>- Greater distrust and antipathy towards</td>
<td>- Disruptions to cross-border movements of</td>
<td>- Greater scrutiny of home country employment implications of MNE strategies</td>
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<td>supranational organizations (e.g., the WTO, EU)</td>
<td>intermediate goods and services</td>
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<td>- Greater intolerance of foreign firms, and of</td>
<td>- Significant implications for optimal locations</td>
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<td>expatriate workers</td>
<td>of GVC activities</td>
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<td>- Reshoring of critical GVC activities</td>
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<td>Sustainable development and climate change</td>
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<td>- Enhanced concerns about the depletion of</td>
<td>- Implications of energy transitions for the</td>
<td>- MNEs required to have greater accountability for work/employment conditions in their</td>
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<td>natural resources</td>
<td>location of GVC activities</td>
<td>GVCs</td>
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<td>- Greater emphasis and scrutiny on the social</td>
<td>- Strategies to respond to investor and consumer</td>
<td>- Enhanced need for MNEs to manage relationships with local stakeholders</td>
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<td>responsibilities of MNEs</td>
<td>green activism</td>
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<td>- Cost and availability of different sources of</td>
<td>- Opportunities linked to the introduction of</td>
<td>- Greater need to comply with ever stricter environmental regulations</td>
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<td>New digital technologies</td>
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<td>- Reduced employment of (particularly unskilled)</td>
<td>- Reduced incentive to offshore labour-intensive</td>
<td>- Reduced demand for labour in foreign locations (differential impacts on male and female</td>
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<td>labour</td>
<td>activities</td>
<td>workers)</td>
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<td>- Collection of ever greater quantities of Big Data</td>
<td>- Reshoring of GVC activities if not jobs</td>
<td>- Enhanced international income inequalities, and labour-capital inequality</td>
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<td>with associated concerns about privacy and security</td>
<td>- Greater customization of products</td>
<td>- Impact of regulations on cross-border transfers of data</td>
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<td>- More efficient coordination of GVCs</td>
<td>- Enhanced opportunities for profit-shifting</td>
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<td>activities within GVCs and tax avoidance</td>
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<td>- Monopoly power of digital platforms</td>
<td>- Externalization of non-core GVC activities</td>
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<td>- Potential negative impacts from MNEs exploiting</td>
<td>- Base erosion and profit-shifting strategies</td>
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<td>their market power</td>
<td>- Increased use of non-market strategies</td>
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<td>- Greater emphasis by host country governments on</td>
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<td>screening and monitoring the performance of MNEs</td>
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<td>Changing power relationships</td>
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<td>- Weakened bargaining power of labour in home</td>
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<td>- Increased competition between workers in different</td>
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rewards in

disaggregated GVCs
Fig. 1. Populism and nationalism as independent and related phenomena

Source: Based on De Clean and Stavrakakis (2017); and Bubaker (2020)
Fig. 2. GDP of G7 and E7 countries (US$)

Source: PwC (2016, p. 4)